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# **AICPA** *Washington Report*

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October 5, 1987, Volume XVI, Issue 31

## **EDUCATION**

**Audit guidance issued for institutions  
receiving student financial assistance . . . . . p. 1**

## **TRANSPORTATION**

**Final rule and notice promulgated regarding  
changes to Uniform System of Accounts and  
Records and Reporting System . . . . . p. 1**

## **TREASURY**

**Advance notice about state and local bonds  
released . . . . . p. 2**

**Publications explaining TRA '86 available . . . . . p. 2**

## **SPECIAL:**

**Final Treadway Commission report released;  
establishment of implementing committee  
announced . . . . . p. 2**

## EDUCATION. DEPARTMENT OF

Guidance on recent developments affecting the audits required of institutions which receive student financial assistance (SFA) was recently issued by the Department of Education's Inspector General James B. Thomas, Jr. In a "Dear Colleague" letter to officials of institutions of higher education, Mr. Thomas highlighted the following: 1) In January 1987, the Department formalized its policy that site visits to institutions are necessary for independent public accountants (IPAs) performing SFA audits. A copy of this policy is available from the office of the Regional Inspector General. 2) The year end date for public and non-profit colleges and universities to use the November, 1984 working draft, Guidelines for Audits of Federal Awards to Educational Institutions, has been extended to 6/30/87. Permission to use the working draft was granted in July, 1985 to institutions that chose to have an A-110 Single Audit. 3) The Department is currently revising its March, 1984 Audit Guide for Audits of Student Financial Assistance Programs. The revised reporting requirements will be effective for audit periods ending on or after 6/30/88, and are anticipated to affect SFA audits. For those institutions with audit periods ending on this date, the Department suggests that they review the requirements of the forthcoming guide before soliciting bids for the audit engagement. Additionally, under the revised audit guide, internal auditors will be prohibited from performing the audits at their institutions. 4) Department SFA regulations hold institutions responsible for developing and maintaining adequate accounting records for their SFA programs and arranging for the audit of their financial statements. Occasionally, the Department notes, the condition of the institution's accounting records may be such that the independent public accountant is not able to perform a sufficient examination of the financial records. In such cases, the Department notes, the independent accountant should issue a disclaimer on the financial statements. For further information, please contact Carol Lynch, Chief, Postsecondary Education Audit Branch at 202/472-6155.

## TRANSPORTATION. DEPARTMENT OF

A final rule and a final notice of changes to the Uniform System of Accounts and Records and Reporting System has been issued by the Urban Mass Transportation Administration (UMTA) (see the 9/25/87 Fed. Reg., pp. 36182-96 and pp. 36196-98). According to UMTA, the intent of the changes is to streamline data collection, recordkeeping, and reporting requirements under the Urban Mass Transportation Act. The final rule provides that an agency required to submit a Section 15 Report no longer must provide financial data certification by an independent auditor where either of the following criteria is met: The reporting agency has adopted the Uniform System of Accounts and Records, and has previously submitted a Section 15 Report compiled using the Uniform System of Accounts and Records and certified by an independent auditor. However, the agency Chief Executive Officer must annually certify that the accounting system from which the Section 15 Report is derived follows the accounting system prescribed by the Section 15 Uniform System of Accounts and Records. The financial data certification requirement by an independent auditor is also waived for a reporting agency if it uses an internal accounting system other than the accounting system prescribed by the Uniform System of Accounts and Records if it: 1) Uses the accrual basis of accounting; 2) can directly translate its system and accounting categories, via a clear audit trail, to the accounting treatment and categories specified by Section 15; and 3) has previously submitted a Section 15 Report compiled using the same internal

accounting system and translation to the Uniform System of Accounts and Records and was certified by an independent auditor. The agency's Chief executive Officer must annually certify that each of the above criteria have been met. UMTA notes in the final rule that it reserves the right to periodically require independent auditors' financial data certifications from any section 15 reporting agency if there are suspected reporting inaccuracies. The final rule continues the certification of Section 9 data in Section 15 reports covering 50 or more vehicles operated in a maximum service by all modes in urbanized areas with populations over 200,000. UMTA will determine auditor independence, the final rule notes, by applying criteria contained in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. Additionally, the rule contains a suggested form of a Chief Executive Officer section 15 certification statement. The changes are effective 10/26/87, and apply to all section 15 reporting years beginning with 1988. The 1988 reporting year covers local transit agencies fiscal years ending on or between 1/1/88 and 12/31/88. If further information is needed after reviewing the rule, please contact Robert Wilson at UMTA at 202/366-1610.

#### TREASURY, DEPARTMENT OF

Guidance to issuers of State and local bonds for purposes of applying the private business tests of Internal Revenue Code section 141(b), was recently issued in Advance Notice 87-69 by the IRS. The IRS says an issue meets the private business use test of section 141(b)(1) if more than 10% of the proceeds of the issue are to be used for any private business use. "Private business use" is defined to mean use, directly or indirectly, in a trade or business carried on by any person other than a governmental unit. The IRS said that issuers may rely on the guidance issued in the notice until regulations are issued. Notice 87-69 is scheduled to appear in Internal Revenue Bulletin 1987-43, dated 10/26/87. Comments are requested relating to the definition of "private activity bond" and should be sent to: Internal Revenue Service, Attention: CC:LR:T (LR-87-86), Washington, D.C. 20224.

Two publications explaining the Tax Reform Act of 1986 (TRA '86) for individuals and businesses are available from the IRS. Both publications show how the new law compares to the old, first in chart form for a quick overview, then followed by detailed articles on most of the TRA '86 changes that affect individuals and businesses. Publication 920, Explanation of the Tax Reform Act of 1986 for Individuals, has 15 articles on such topics as Taxing Your Child's Income, Simplified and Reduced Tax Rates, and Changes in Deductions. Publication 921, Explanation of the Tax Reform Act of 1986 for Business, contains articles covering 10 different business areas, such as Business Expenses, Tax Credits and Changes in Penalties. Complete indexes are included at the end of both publications to facilitate the location of topics. Publication 920 also includes a description of the free tax services that the IRS will continue to offer. Copies of the publications are available free of charge from local IRS offices or by calling 1-800-424-3676.

#### SPECIAL: FINAL TREADWAY COMMISSION REPORT RELEASED; ESTABLISHMENT OF IMPLEMENTING COMMITTEE ANNOUNCED

The final report of the National Commission on Fraudulent Financial Reporting, commonly referred to as the Treadway Commission, was issued 10/1/87. The chief recommendations of the final report are that "all public companies should have

internal audit functions and audit committees, all independent auditors of public companies should undergo peer review, and the SEC should have greater enforcement tools." The final report includes "refined" recommendations made in the exposure draft issued in April and reflects the "over 200 comments" received, the Commission said. (Stories about the exposure draft appeared in the 5/1/87, 5/18/87, 5/25/87, 6/1/87 and 6/8/87 Wash. Rpts.) Issuance of the final report completes the work of the Treadway Commission. The responsibility for implementing the Treadway Commission's recommendations rests with those to whom the recommendations are directed. Copies of the final report are available free of charge upon written request only to the AICPA, Order Department, 1211 Avenue of the Americas, New York, NY 10036 (request Product No. G00486). For orders of more than three copies, there will be a charge of \$2.50 per copy. The comment letters the Commission received in response to its exposure draft are available for public inspection and copying through the AICPA Library in New York. The toll free number for information is 800-223-4155 (New York State, 800-522-5434). The AICPA will also retain the complete records of the Commission's proceedings.

In a related action, establishment of a Monitoring and Implementation Committee was announced. This committee will periodically report on the status of the implementation of the recommendations to the five organizations which sponsored the Treadway Commission. (The sponsoring organizations are the AICPA, the American Accounting Association (AAA), the Financial Executives Institute (FEI), the Institute of Internal Auditors (IIA) and the National Association of Accountants (NAA)).

For further information contact Joseph Petito or Shirley Twillman at 202/737-6600.

## **AICPA** *Washington Report*

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